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UNCLAS SECTION 01 OF 02 BEIRUT 002652

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STATE ALSO PASS TO USAID  
CAIRO FOR AGRICULTURE COUNSELOR

E.O. 12958: N/A  
TAGS: [EAID](#) [ECON](#) [IS](#) [LE](#) [PREL](#) [SY](#)  
SUBJECT: LEBANON: WHEAT SHIPMENT NEEDED TO KEEP BREAD ON  
THE TABLE

¶1. This message contains an action message for the  
Department -- please see para 6.

¶2. Embassy meetings with GOL and agrifood industry leaders  
have confirmed that current stocks of wheat in Lebanon are at  
a critically low level. President of Dora Flour Mills and  
Chair of the Agrifood Traders Syndicate Arslan Sinno told  
emboffs that perhaps only a 10-15 day reserve supply of wheat  
remains in Lebanon. Sinno added that commercial mills have  
been taking steps to stretch remaining grain stocks by  
rationing their output, closing for portions of the day, and  
only partially filling orders from industrial bakers. Sinno  
explained that the milling/flour industry in Lebanon is very  
much dependent on maintaining stocks of wheat to be milled on  
demand. Lebanon's climate and the high overhead cost of  
maintaining storage facilities preclude most consumers from  
storing large quantities of flour.

¶3. Sinno and other mill owners confirm that they currently  
have no means of getting stocks of wheat delivered to  
Lebanon. Normally, Lebanese millers import wheat from Russia  
using small capacity ships, holding less than 10,000 tons.  
The millers prefer Russian wheat as it trades at  
approximately 165 USD per ton CNF (including freight costs),  
while U.S. wheat costs over \$240 per ton including freight.  
Orders placed prior to July 12, 2006 that were inbound to  
Lebanon have had to be canceled or resold on the market,  
often at a loss to the miller in Lebanon. Ship owners  
operating grain transports have refused to cross the sea  
blockade to port in Lebanon. Several mill owners report  
frustrating and unusual demands from their shippers,  
including one ship owner requesting a letter signed by  
President Bush and Prime Minister Olmert of Israel  
guaranteeing the ship's safety. Sinno stressed the urgency  
of getting a shipment of grain en route to Lebanon, as  
turn-around times for U.S.-originating grain shipments  
average 30 days.

¶4. The Agrifood Syndicate has approached the GOL and the US  
Embassy with a proposal asking for help to alleviate the  
wheat shortage. In a letter to Lebanese PM Siniora and  
Minister of the Economy Sami Haddad, the syndicate proposes  
that the GOL request from the USG a humanitarian shipment of  
wheat. The transit and delivery of the shipment would be  
guaranteed by the USG, who could make the proper assurances  
to the IDF to allow the shipment to cross the blockade. The  
30,000-ton shipment (approximately 6 million USD in value),  
enough for approximately 1 month of normal flour consumption  
in Lebanon, would then be sold to Lebanese commercial  
millers. If the wheat were sold at a "replacement rate"  
(i.e. the previously negotiated rate for Russian wheat),

bread and flour prices would remain more or less constant in Lebanon. The Syndicate has also approached the Embassy of France with a similar proposal, but Sinno and others prefer U.S. wheat as "more suitable" for Lebanese flour products. Proceeds from the sale could then be used by the GOL for reconstruction or humanitarian concerns.

¶5. Previously, Lebanon has benefited from USAID/USDA humanitarian wheat programs, such as "Food for Education." In the most recent wheat shipment, the International Orthodox Christian Charities (IOCC) NGO received 50,000 tons of wheat, which was then sold at auction to local Lebanese mills. The IOCC used the proceeds to support its local education initiatives. There is no current PL-480 program for Lebanon, as its per-capita income is too high. Under current USDA and USAID rules, request for a similar grain shipment would need to originate from a U.S.-based NGO and be coupled with Embassy Beirut's endorsement.

¶6. ACTION REQUEST: Based on suggestions from the agrifood sector and the GOL on grain shipments, post recommends that the Department engage with USDA and USAID to:

--Investigate the possibility of donating 25,000 to 30,000 tons of "#2 U.S. Hard Red Winter Wheat" to the GOL for re-sale and distribution as described above.

--Arrange for shipment of the wheat by U.S.-flag transport vessels

--Liaise with the Government of Israel to clear the shipment through the sea blockade

¶7. Comment: Maintaining bread and flour proces at current

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levels and insuring the supply of wheat in the short-run will alleviate domestic economic pressure on the Siniora government. The visibility of USG efforts to stave off a potentially crippling crisis of a bread and flour shortage would go far to demonstrate USG support for the GOL and the Lebanese people. While there are several NGOs who could handle such an operation under normal circumstances (Mercy Corps, IOCC, World Vision, YMCA), most of their operations have turned to meeting the immediate humanitarian needs of Lebanon's internally displaced persons (IDPs). Allowing the GOL to be the receiver of such a shipment would secure immediate and efficient distribution of the grain upon arrival and bolster the private sector's confidence in the GOL.

¶8. Comment continued: Given the time needed to get a ship of wheat loaded and to Lebanon, we hope that this request can be approved and acted upon as promptly as possible. As in fuel, wheat shortages are likely to benefit Syrian blackmarketeers while hurting the average Lebanese consumer -- and damaging the credibility of the Siniora government. We should not underestimate the impact, political and otherwise, bread shortages and/or hikes in bread prices would have, especially during this critical period. End Comment.  
FELTMAN